

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name BESSEMER	County GOGEBIC
Fiscal Year End 6/30/2006	Opinion Date 9/21/2006	Date Audit Report Submitted to State 10/31/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	FINDING LISTED IN REPORT ON INTERNAL CONTROL	
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) DAVID TRACZYK CPA		Telephone Number 715-561-3299	
Street Address 327 SILVER STREET		City HURLEY	State WI
		Zip 54534	
Authorizing CPA Signature 	Printed Name DAVID TRACZYK		License Number 1101011098

CITY OF BESSEMER, MICHIGAN
AUDITED FINANCIAL STATEMENTS
June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

Mayor and Members of the Council
City of Bessemer, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bessemer Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bessemer, Michigan management. My responsibility is to express an opinion on these statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bessemer, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City of Bessemer, Michigan, has not presented management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming an opinion on the financial statements of the City of Bessemer, Michigan, taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the City of Bessemer, Michigan. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 21, 2006, on my consideration of City of Bessemer, Michigan internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

September 21, 2006

CITY OF BESSEMER, MICHIGAN
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 177,225	\$ 100,225	\$ 277,450
Accounts receivable	11,812	139,894	151,706
Taxes receivable	4,076	-	4,076
Due from State of Michigan	106,054	-	106,054
Internal balances	(17,374)	17,374	-
Deferred charges	16,226	-	16,226
Inventory	25,126	74,146	99,272
Restricted cash and investments	380,957	249,221	630,178
Capital assets	3,114,268	3,047,840	6,162,108
Accumulated depreciation	(1,648,945)	(1,118,704)	(2,767,649)
	<hr/>	<hr/>	<hr/>
Total Assets	2,169,425	2,509,996	4,679,421
LIABILITIES			
Vouchers payable	57,922	16,302	74,224
Accrued interest	2,303	-	2,303
Due to other governments	-	-	-
Customer deposits	1,580	53,547	55,127
Bonds and notes payable	322,539	-	322,539
Accrued compensated absences	57,046	-	57,046
	<hr/>	<hr/>	<hr/>
Total Liabilities	441,390	69,849	511,239
NET ASSETS			
Investments in capital assets, net of related debt	1,142,784	1,929,136	3,071,920
Reserved for perpetual care	241,605	-	241,605
Reserved for subsequent years	24,270	-	24,270
Reserved for capital projects	115,082	249,221	364,303
Unreserved	204,294	261,790	466,084
	<hr/>	<hr/>	<hr/>
Total Net Assets	<u>\$ 1,728,035</u>	<u>\$ 2,440,147</u>	<u>\$ 4,168,182</u>

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 366,562	\$ 27,974	\$ 270,514	\$ -	\$ (68,074)
Public safety	117,097	-	-	31,904	(85,193)
Highways and streets	603,153	-	273,269	-	(329,884)
Sanitation	112,765	137,970	-	-	25,205
Culture and recreation	70,290	4,729	28,658	-	(36,903)
Interest on long term debt	14,432	-	-	-	(14,432)
Total Governmental Activities	1,284,299	170,673	572,441	31,904	(509,281)
Business-type Activities:					
Water	431,136	378,667	-	-	(52,469)
Sewer	337,808	348,696	-	-	10,888
Total Business-type Activities	768,944	727,363	-	-	(41,581)
Total	\$ 2,053,243	\$ 898,036	\$ 572,441	\$ 31,904	\$ (550,862)

Changes in Net Assets

	Governmental Activities	Business- type Activities	Total
Net (Expense) Revenue	\$ (509,281)	\$ (41,581)	\$ (550,862)
General Revenues:			
Property taxes	447,863	-	447,863
Investment income	12,479	10,585	23,064
Miscellaneous	89,170	-	89,170
Transfers	28,169	(28,169)	-
Total General Revenues and Transfers	577,681	(17,584)	560,097
Changes in Net Assets	68,400	(59,165)	9,235
Net Assets at Beginning of Year	1,659,635	2,499,312	4,158,947
Net Assets at End of Year	\$ 1,728,035	\$ 2,440,147	\$ 4,168,182

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Major Street	Local Street	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 32,689	\$ 66,093	\$ 9,317	\$ 69,126	\$ 177,225
Accounts receivable	11,812	-	-	-	11,812
Taxes receivable	4,076	-	-	-	4,076
Due from State of Michigan	86,577	13,916	5,561	-	106,054
Due from other funds	115,842	472	25,475	4,112	145,901
Deferred charges	16,226	-	-	-	16,226
Inventory	-	12,563	12,563	-	25,126
Restricted cash and investments	380,957	-	-	-	380,957
Total Assets	\$ 648,179	\$ 93,044	\$ 52,916	\$ 73,238	\$ 867,377
LIABILITIES					
Vouchers payable	\$ 53,567	\$ 1,928	\$ 2,427	\$ -	\$ 57,922
Due to other funds	49,211	76,335	37,729	-	163,275
Customer deposits	1,580	-	-	-	1,580
Total Liabilities	104,358	78,263	40,156	-	222,777
FUND BALANCES					
Reserved for perpetual care	241,605	-	-	-	241,605
Reserved for subsequent years	24,270	-	-	-	24,270
Reserved for capital outlay	115,082	-	-	-	115,082
Unreserved	162,864	14,781	12,760	73,238	263,643
Total Fund Balances	543,821	14,781	12,760	73,238	644,600
Total Liabilities and Fund Balances	\$ 648,179	\$ 93,044	\$ 52,916	\$ 73,238	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$1,648,945. 1,465,323

Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Due within one year	\$ 245,511	
Due in more than one year	77,028	
Compensated absences	57,046	(379,585)

Interest payable on long-term debt does not require current financial resources.

Therefore interest payable is not reported as a liability in governmental funds balance sheet. (2,303)

\$ 1,728,035

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year ended June 30, 2006

	General	Major Street	Local Street	Other Governmental Funds	Total Governmental Funds
Revenues:					
Local Sources:					
Property taxes	\$ 403,216	\$ -	\$ -	\$ 44,647	\$ 447,863
Licenses and permits	4,140	-	-	-	4,140
Charges for services	475,614	-	-	-	475,614
Fines and forfeits	27,300	-	-	-	27,300
Interest	8,495	1,817	355	1,812	12,479
Other	85,030	-	-	-	85,030
State sources	282,776	193,833	68,532	-	545,141
Federal sources	31,904	-	-	-	31,904
	<u>1,318,475</u>	<u>195,650</u>	<u>68,887</u>	<u>46,459</u>	<u>1,629,471</u>
Expenditures:					
General Government	518,179	-	-	8,822	527,001
Public safety	117,097	-	-	-	117,097
Highways & streets	196,309	200,703	206,141	-	603,153
Sanitation	112,765	-	-	-	112,765
Culture and recreation	70,290	-	-	-	70,290
Capital outlay	30,801	-	-	21,093	51,894
Debt service:					
Principal	76,687	-	-	-	76,687
Interest	15,108	-	-	-	15,108
	<u>1,137,236</u>	<u>200,703</u>	<u>206,141</u>	<u>29,915</u>	<u>1,573,995</u>
Excess of Revenues over (under) Expenditures	181,239	(5,053)	(137,254)	16,544	55,476
Other Financing Sources (Uses):					
Transfers in	28,169	-	171,000	-	199,169
Transfers (out)	(140,000)	(31,000)	-	-	(171,000)
Proceeds from borrowing	-	-	-	-	-
	<u>(111,831)</u>	<u>(31,000)</u>	<u>171,000</u>	<u>-</u>	<u>28,169</u>
Net Change in Fund Balances	69,408	(36,053)	33,746	16,544	83,645
Fund balance at beginning of year	<u>474,413</u>	<u>50,834</u>	<u>(20,986)</u>	<u>56,694</u>	<u>560,955</u>
Fund balance at end of year	<u>\$ 543,821</u>	<u>\$ 14,781</u>	<u>\$ 12,760</u>	<u>\$ 73,238</u>	<u>\$ 644,600</u>

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year ended June 30, 2006

Continued

Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities:

Net change in fund balances - total governmental funds	\$	83,645
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	51,894		
Depreciation expense	<u>(143,611)</u>		(91,717)

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Proceeds from borrowing	-		
Principal paid on long-term debt	<u>76,687</u>		76,687

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Accrued interest	676		
Accrued compensated absences	<u>(891)</u>		<u>(215)</u>

Change in Net Assets of Governmental Activities	\$	<u><u>68,400</u></u>
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See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
Year ended June 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Local Sources:				
Property taxes	\$ 412,550	\$ 402,100	\$ 403,216	\$ 1,116
Licenses and permits	2,000	3,500	4,140	640
Charges for services	408,700	451,145	475,614	24,469
Fines and forfeits	20,000	27,300	27,300	-
Interest	16,500	12,400	8,495	(3,905)
Other	13,350	66,302	85,030	18,728
State sources	275,400	272,300	282,776	10,476
Federal sources	50	31,954	31,904	(50)
	<u>1,148,550</u>	<u>1,267,001</u>	<u>1,318,475</u>	<u>51,474</u>
Expenditures:				
General Government	544,521	549,931	518,179	31,752
Public safety	176,865	119,195	117,097	2,098
Highways & streets	208,250	209,578	196,309	13,269
Sanitation	120,900	117,760	112,765	4,995
Culture and recreation	72,900	72,900	70,290	2,610
Capital outlay	-	30,801	30,801	-
Debt service:				
Principal	51,685	51,685	76,687	(25,002)
Interest	11,174	11,174	15,108	(3,934)
	<u>1,186,295</u>	<u>1,163,024</u>	<u>1,137,236</u>	<u>25,788</u>
Excess of Revenues over (under) Expenditures	(37,745)	103,977	181,239	77,262
Other Financing Sources (Uses):				
Operating transfers in	-	-	28,169	28,169
Operating transfers (out)	13,000	(120,000)	(140,000)	(20,000)
Proceeds from borrowing	-	-	-	-
	<u>13,000</u>	<u>(120,000)</u>	<u>(111,831)</u>	<u>8,169</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other (Uses)	(24,745)	(16,023)	69,408	85,431
Fund balance at beginning of year	<u>474,413</u>	<u>474,413</u>	<u>474,413</u>	<u>-</u>
Fund balance at end of year	<u>\$ 449,668</u>	<u>\$ 458,390</u>	<u>\$ 543,821</u>	<u>\$ 85,431</u>

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	Business type Activities - Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT ASSETS:			
Cash and investments	\$ 88,090	\$ 12,135	\$ 100,225
Accounts receivable	66,245	73,649	139,894
Due from other funds	37,855	-	37,855
Inventory	60,532	13,614	74,146
Total Current Assets	252,722	99,398	352,120
RESTRICTED ASSETS:			
Cash and investments	241,091	8,130	249,221
Total Restricted Assets	241,091	8,130	249,221
NONCURRENT ASSETS:			
Property, plant, and equipment	2,113,627	934,213	3,047,840
Accumulated depreciation	(768,576)	(350,128)	(1,118,704)
Total Noncurrent Assets	1,345,051	584,085	1,929,136
Total Assets	1,838,864	691,613	2,530,477
LIABILITIES			
CURRENT LIABILITIES:			
Vouchers payable	14,391	1,911	16,302
Due to other funds	-	20,481	20,481
Due to other governments	-	-	-
Total Current Liabilities	14,391	22,392	36,783
NONCURRENT LIABILITIES:			
Customer deposits	53,547	-	53,547
Total Noncurrent Liabilities	53,547	-	53,547
Total Liabilities	67,938	22,392	90,330
NET ASSETS			
Investments in capital assets, net of related debt	1,345,051	584,085	1,929,136
Reserved for capital projects	241,091	8,130	249,221
Unreserved	184,784	77,006	261,790
Total Net Assets	\$ 1,770,926	\$ 669,221	\$ 2,440,147

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year ended June 30, 2006

	Business type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating Revenues:			
Charges for services	\$ 377,188	\$ 348,696	\$ 725,884
Miscellaneous	1,479	-	1,479
Total Operating Revenue	378,667	348,696	727,363
Operating Expenses:			
Council/administration	17,422	822	18,244
General administration	47,319	11,889	59,208
Office	28,909	6,802	35,711
Production and pumping	46,211	23,781	69,992
Treatment plant	68,779	272,783	341,562
Distribution	21,375	-	21,375
Water purchased	158,565	-	158,565
Customer accounting	3,901	3,735	7,636
Depreciation	38,655	17,996	56,651
Total Operating Expenses	431,136	337,808	768,944
Operating Income (Loss)	(52,469)	10,888	(41,581)
Non-operating revenue (expenses):			
Interest income	8,638	1,947	10,585
Total non-operating revenues (expenses)	8,638	1,947	10,585
Net Income Before Contributions and Transfers	(43,831)	12,835	(30,996)
Capital contributions	-	-	-
Operating transfers:			
Transfers in	-	-	-
Transfers (out)	-	(28,169)	(28,169)
Net transfers	-	(28,169)	(28,169)
Change in Net Assets	(43,831)	(15,334)	(59,165)
Net Assets at Beginning of Year	1,814,757	684,555	2,499,312
Net Assets at End of Year	\$ 1,770,926	\$ 669,221	\$ 2,440,147

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2006

	Business type Activities - Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 374,908	\$ 337,200	\$ 712,108
Payments to suppliers	(330,414)	(351,342)	(681,756)
Payments to employees	(69,431)	(14,829)	(84,260)
Internal activity - payment from (to) other funds	(7,944)	(38,662)	(46,606)
Net Cash Provided (Used) by Operating Activities	(32,881)	(67,633)	(100,514)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from (to) other funds	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	-	-	-
Proceeds from sale of investments	17,699	62,506	80,205
Interest income	8,638	1,947	10,585
Net Cash Provided (Used) by Investing Activities	26,337	64,453	90,790
Net Increase (Decrease) in Cash and Cash Equivalents	(6,544)	(3,180)	(9,724)
Balances - Beginning of Year	94,634	15,315	109,949
Balances - End of Year	\$ 88,090	\$ 12,135	\$ 100,225
Cash, including time deposits	\$ 88,090	\$ 12,135	\$ 100,225
Restricted cash, including time deposits	-	-	-
Total Cash and Cash Equivalents, End of Year	\$ 88,090	\$ 12,135	\$ 100,225

See accompanying notes to basic financial statements.

Continued

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)	\$	(52,469)	\$	10,888	\$	(41,581)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation		38,655		17,996		56,651
Change in assets and liabilities:						
Receivables		(734)		(11,496)		(12,230)
Due from other funds		(7,944)		-		(7,944)
Inventory		(8,934)		(3,816)		(12,750)
Vouchers payable		1,570		(24,239)		(22,669)
Due to other funds		-		(38,662)		(38,662)
Due to other governments		-		(18,304)		(18,304)
Meter deposits		(3,025)		-		(3,025)
Net Cash Provided by Operating Activities	\$	<u>(32,881)</u>	\$	<u>(67,633)</u>	\$	<u>(100,514)</u>

Noncash investing, capital and financing activities:
None

CITY OF BESSEMER, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND - POLICE AND FIREMEN RETIREMENT FUND
June 30, 2006

	ASSETS	
Cash and investments		<u>\$343,367</u>
	Total Assets	<u>343,367</u>
	LIABILITIES	<u>-</u>
	NET ASSETS	
Held in trust for pension benefits		<u><u>\$343,367</u></u>

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND - POLICE AND FIREMEN RETIREMENT FUND
Year ended June 30, 2006

	ADDITIONS	
Investment earnings:		
Interest		\$7,969
	DEDUCTIONS	
Benefits		21,724
Administration		<u>12</u>
	Total Deductions	<u>21,736</u>
Change in Net Assets		(13,767)
Net Assets at Beginning of Year		<u>357,134</u>
Net Assets at End of Year		<u><u>\$343,367</u></u>

See accompanying notes to basic financial statements.

CITY OF BESSEMER, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL STATEMENT

The City of Bessemer, Michigan (the "City") operates under a Council – Manager form of government as authorized by its charter.

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Local Unit (primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on this criteria, the City has no component units.

BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, Intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is place on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

NOTES TO FINANCIAL STATEMENTS (continued)

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Fiduciary Funds (Not included in government-wide statements)

The City's Policemen and Fireman Retirement Fund is a pension trust fund used to account for the accumulation of resources to be used for the retirement benefit payments to retired policemen and firemen of the City.

NOTES TO FINANCIAL STATEMENTS (continued)

Major and Nonmajor Funds

The governmental and enterprise funds of the City are further classified as major and nonmajor funds as follows:

Fund	Brief Description
MAJOR FUNDS	
1. General	See above for description.
Special Revenue:	
2. Major Street	Account for revenues and expenditures of major street system.
3. Local Street	Account for revenues and expenditures of local street system.
Enterprise:	
4. Water	Account for revenues and expenses of providing water service to the public.
5. Sewer	Account for revenues and expenses of providing sewer service to the public.
NONMAJOR FUNDS	
Special Revenue:	
6. Building Authority Fund	Account for revenues and expenditures of Building Authority.
7. Downtown Development Authority Fund	Account for revenues and expenditures of Downtown Development Authority.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

NOTES TO FINANCIAL STATEMENTS (continued)

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note F for details of interfund transactions, including receivables and payables at year-end.

NOTES TO FINANCIAL STATEMENTS (continued)

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes. Business-type activities report utilities earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax and grants and other similar intergovernmental revenues since they are usually both measurable and available. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

The inventories of the City's major and local street funds and enterprise funds consist of supplies and are recorded at the lower of cost or estimated value.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

-Buildings	50 years
-Machinery and Equipment	5-15 years
-Utility System	10-100 years
-Infrastructure	25-50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

NOTES TO FINANCIAL STATEMENTS (continued)

Restricted Assets

Restricted assets include cash and investments that are legally restricted as to their use. The primary restricted assets are related to cash accounts established to be used for capital projects, cemetery perpetual care, and subsequent years operations.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes and bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The City's policies regarding vacation time and sick leave permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term in the government-wide statements. In the fund financial statements, the liability is reported as it is incurred.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statement

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements. See Note E for additional disclosures.

REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

Property tax revenue should be recognized in accordance with MCGAA Statement 3. Properties are assessed and lienied as of December 31 and their related property taxes are billed on December 1 or July 1 of the following year. These taxes are due on February 14, or August 31 with the final collection date of February 28 before they are added to the county delinquent tax rolls.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods, and /or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds--By Character:

Current (further classified by function)
Debt Service
Capital Outlay

Proprietary Fund--By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

BUDETARY CONTROL

The City follows the following procedures in establishing budgets as reflected in the financial statements:

1. Prior to June 1st, the City Manager submits a proposed budget to the Council with covers all funds operated by the City commencing the following July 1st, the proposed expenditures and the means of financing them.
2. At least one public hearing is conducted by the City to obtain taxpayer comments and review the proposed budget in detail.
3. In June, the budget is legally enacted through passage of an ordinance.
4. Any revisions that alter any item of the budget are approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year.
6. Budgets are adopted on a basis consistent with Generally Accepted Accounting Principles.

Presented budgeted amounts presented are as originally adopted on May 16, 2005, or as amended by action of the Council. The Council approved amendments to the 2005-06 budget on February 6, 2006, and June 19, 2006.

NOTES TO FINANCIAL STATEMENTS (continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - BALANCE SHEET--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are in several financial institutions in the name of the Local Unit Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; bankers' acceptance of the United States banks; commercial paper rated within the three highest classifications by not less than two standard ratings services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Local Unit's deposits are in accordance with statutory authority.

At June 30, 2006, cash and investment were reported in the basic financial statements as follows:

	Governmental Activities	Business-Type Activities	Fiduciary Fund	Total
Cash and investments	\$ 177,225	\$ 100,225	\$ 343,367	\$ 620,817
Restricted cash and investments	380,957	249,221	-	630,178
	<u>\$ 558,182</u>	<u>\$ 349,446</u>	<u>\$ 343,367</u>	<u>\$ 1,250,995</u>

The breakdown between deposits and investments for the City is as follows:

Bank deposits (checking accounts, savings accounts, and certificates of deposit):	
Insured	\$ 344,720
In excess of insurance limits	442,741
Invested in bank investment pools	478,505
Petty cash or cash on hand	<u>415</u>
Subtotal	1,266,381
Less outstanding items	<u>(15,386)</u>
	<u>\$ 1,250,995</u>

The bank balance of the City's deposits is \$797,491 of which \$344,720 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The investments in bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. These are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE C – ACCOUNTS RECEIVABLE

The City records the receivables net of the allowance for uncollectibles. The amounts reflected as of June 30, 2006, include the following amounts with allowances for uncollectibles:

<u>Fund</u>	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
General	\$ 11,812	\$ -	\$ 11,812
General - taxes	4,076	-	4,076
Water	66,245	-	66,245
Sewer	73,649	-	73,649

The allowance is established, as accounts are deemed uncollectible. Delinquent personal property taxes are deemed uncollectible after 3 years and are written off.

NOTE D - RESTRICTED CASH

Various accounts have been established by the City for funds that have been reserved for future reserved expenditures. Separate accounts have been set up as follows:

General Fund:	
Subsequent years costs for road repairs, fire department, library, and sick leave	\$ 24,270
Cemetery perpetual care	241,605
Capital outlay	<u>115,082</u>
	380,957
Water Fund:	
Capital improvements	241,091
Sewer Fund:	
Capital improvements	<u>8,130</u>
Total restricted assets	<u><u>\$ 630,178</u></u>

The above amounts have been set up in local banks in checking, savings, certificate of deposit accounts, and bank investment pools.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE E – PROPERTY, PLANT, AND EQUIPMENT

A summary of the changes in the City's property, plant, and equipment for the year is as follows:

	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
<u>General Fixed Assets</u>				
Land	\$ 5,999	\$ 21,093	\$ -	\$ 27,092
Buildings	1,401,115	-	-	1,401,115
Machinery and equipment	1,441,568	30,801	-	1,472,369
Office equipment	136,931	-	-	136,931
Infrastructure	76,761	-	-	76,761
	<u>3,062,374</u>	<u>51,894</u>	<u>-</u>	<u>3,114,268</u>
Accumulated depreciation	<u>1,505,334</u>	<u>143,611</u>	<u>-</u>	<u>1,648,945</u>
	<u>\$ 1,557,040</u>	<u>\$ (91,717)</u>	<u>\$ -</u>	<u>\$ 1,465,323</u>
<u>Water Fund</u>				
Land	\$ 17,723	\$ -	\$ -	\$ 17,723
Land improvements	23,760	-	-	23,760
Well improvements	142,105	-	-	142,105
Buildings	280,121	-	-	280,121
Machinery and equipment	218,511	-	-	218,511
Vehicles	24,632	-	-	24,632
Office equipment	5,431	-	-	5,431
Distribution system	1,401,344	-	-	1,401,344
	<u>2,113,627</u>	<u>-</u>	<u>-</u>	<u>2,113,627</u>
Accumulated depreciation	<u>729,921</u>	<u>38,655</u>	<u>-</u>	<u>768,576</u>
Net Plant	<u>\$ 1,383,706</u>	<u>\$ (38,655)</u>	<u>\$ -</u>	<u>\$ 1,345,051</u>
<u>Sewer Fund</u>				
Machinery and equipment	\$ 161,085	\$ -	\$ -	\$ 161,085
Vehicles	24,633	-	-	24,633
Office equipment	4,846	-	-	4,846
Transmission system	743,649	-	-	743,649
	<u>934,213</u>	<u>-</u>	<u>-</u>	<u>934,213</u>
Accumulated depreciation	<u>332,132</u>	<u>17,996</u>	<u>-</u>	<u>350,128</u>
Net Plant	<u>\$ 602,081</u>	<u>\$ (17,996)</u>	<u>\$ -</u>	<u>\$ 584,085</u>

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE F - INTERFUND ACTIVITIES

The amounts of interfund receivables and payables at June 30, 2006, were as follows:

<u>Receivable</u>	<u>June 30, 2006</u>	<u>Payable</u>	<u>June 30, 2006</u>
General	\$ 115,842	Sewer	\$ 2,250
		Major Street	76,335
		Local Street	<u>37,257</u>
			115,842
Major Street	472	Local Street	472
Local Street	25,475	General	25,475
DDA	4,112	General	4,112
Water	<u>37,855</u>	General	19,624
		Sewer	<u>18,231</u>
			<u>37,855</u>
	<u>\$ 183,756</u>		<u>\$ 183,756</u>

Operating transfers between the various funds of the City for the year ended June 30, 2006, were as follows:

<u>Transfer From</u>		<u>Transfer To</u>	
Local Street	\$ 171,000	General	\$ 140,000
		Major Street	<u>31,000</u>
			171,000
General	<u>28,169</u>	Sewer	<u>28,169</u>
	<u>\$ 199,169</u>		<u>\$ 199,169</u>

The fund financial statements include charges by the general fund to the various funds and functions of the City for administration and rentals as follows:

Administration	\$ 83,025
Rentals	<u>221,916</u>
Total	<u>\$ 304,941</u>

These charges represent the allocation of various overhead expenditures. They have been eliminated in the government-wide statement of activities in accordance with GASB 34.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE G - JOINT VENTURES

The City is a member of the Bessemer Area Sewer Authority (BASA), a joint venture. It has been incorporated by the City of Bessemer and Bessemer Township, both located in Gogebic County, Michigan. The BASA operates under a board of directors consisting of three members, two appointed by the City, and one by Bessemer Township. As a joint venture, the BASA operates independent from the member municipalities and is not considered a component unit of the City. Separate financial statements of the BASA are available at the office of the BASA located at E7840 Stone Rd., Bessemer, Michigan. A condensed summary of the BASA activities as of June 30, 2005, is as follows:

	June 30, 2004	Net Change	June 30, 2005
Current assets	\$ 250,698	\$ 3,059	\$ 253,757
Property, plant and equipment	7,833,648	(126,802)	7,706,846
Other assets	235,164	13,355	248,519
	<u>\$ 8,319,510</u>	<u>\$ (110,388)</u>	<u>\$ 8,209,122</u>
Current liabilities	\$ 77,335	\$ 8,348	\$ 85,683
Long-term debt	2,454,000	(51,000)	2,403,000
Equity	5,788,175	(67,736)	5,720,439
	<u>\$ 8,319,510</u>	<u>\$ (110,388)</u>	<u>\$ 8,209,122</u>

The City also is a member of the Gogebic Range Water Authority (GRWA), a joint venture. It has been incorporated by the Charter Township of Ironwood, Cities of Bessemer and Bessemer, along with the Townships of Bessemer and Bessemer, all of Gogebic County. The GRWA operates under a board of directors consisting of eleven members, two appointed by the each of the constituent municipalities, and 1 at large member appointed by the board of directors. The GRWA operates independent from the member municipalities and is not considered a component unit of the City. Separate financial statements of the GRWA are available through their representative at P.O. Box 445, Ramsay, Michigan 49959. A condensed summary of the GRWA activities as of June 30, 2005, is as follows:

	June 30, 2004	Net Change	June 30, 2005
Current assets	\$ 163,267	\$ 57,199	\$ 220,466
Property, plant and equipment	11,175,968	1,648,372	12,824,340
Other assets	448,340	(206,632)	241,708
	<u>\$ 11,787,575</u>	<u>\$ 1,498,939</u>	<u>\$ 13,286,514</u>
Current liabilities	\$ 516,051	\$ (229,744)	\$ 286,307
Long-term debt	4,214,627	670,992	4,885,619
Equity	7,056,897	1,057,691	8,114,588
	<u>\$ 11,787,575</u>	<u>\$ 1,498,939</u>	<u>\$ 13,286,514</u>

NOTES TO FINANCIAL STATEMENT (Continued)

NOTE H - LONG-TERM DEBT

A summary of changes in the City's long-term debt for the year ended June 30, 2006, is as follows:

	<u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2006</u>
Bonds payable	\$ 139,000	\$ -	\$ 3,000	\$ 136,000
Notes payable	260,226	-	73,687	186,539
Lease purchase	-	-	-	-
Compensated absences	<u>56,155</u>	<u>891</u>	<u>-</u>	<u>57,046</u>
	<u>\$ 455,381</u>	<u>\$ 891</u>	<u>\$ 76,687</u>	<u>\$ 379,585</u>

The long-term debt consists of the following general obligations of the City:

1. General Obligation Limited Tax Bonds

Issued April 17, 2002 for \$145,000, bearing interest @ 4.75% payable over 30 years. 136,000

2. Bank Note (National City Bank)

Issued November 10, 1998, bearing interest @ 5.01%, payable over the next 3 years 21,493

3. Bank Note (Wells Fargo Bank)

Issued September 23, 2003, for \$150,000, bearing interest @ 2.0% payable over 6 years 81,250

4. Bank Note (Wells Fargo Bank)

Issued September 23, 2003, for \$150,000, bearing interest @ 2.0% payable over 6 years 81,250

5. Equipment Loan (Kubota Credit)

Issued July 22, 2004, for \$7,640, no interest, payable over 3 years. 2,546

Total General Obligation Debt \$ 322,539

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE H - LONG-TERM DEBT (continued)

The repayment schedule for these debts is scheduled as follows:

<u>Year ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/2007	\$ 77,039	\$ 10,379	\$ 87,418
6/30/2008	53,000	8,139	61,139
6/30/2009	53,000	6,979	59,979
6/30/2010	15,500	6,074	21,574
6/30/2011	3,000	5,890	8,890
6/30/12 - 6/30/16	19,000	26,728	45,728
6/30/17 - 6/30/21	23,000	22,182	45,182
6/30/22 - 6/30/26	31,000	15,913	46,913
6/30/27 - 6/30/31	39,000	7,933	46,933
6/30/32	9,000	427	9,427
	<u>\$ 322,539</u>	<u>\$ 110,644</u>	<u>\$ 433,183</u>

Summary of changes in long-term debt:

Compensated Absences

Employees earn one day of sick leave per month with a maximum accumulation of 120 days. Upon retirement, employees are entitled to payment for up to a maximum of 100 days, calculated with regard to the number of years of service. Employees are also granted vacation in varying amounts based on the number of years of service. The estimated value of unused sick leave and vacation are reflected as a liability in the general long term debt account group at \$33,978 and \$23,068 respectively.

NOTE I - CONTINGENT LIABILITY

As further explained in Note G, the City is a member of two joint ventures. As a member, the City is contingently liable for its share of the bonds issued by the joint ventures. As of June 30, 2005, the outstanding bonds of the joint ventures are as follows:

	<u>Outstanding</u>	<u>City Portion</u>
BASA - 1987 bond issue	\$ 1,310,000	\$ 1,082,322 (82.62%)
BASA - 1998 bond issue	1,144,000	1,109,680 (97.00%)
GRWA - 1999 bond issue	2,688,000	2,128,896 (79.20%)
GRWA - 2003 bond issue	1,306,000	382,919 (29.32%)

NOTE J - EMPLOYEE RETIREMENT PLAN

The City is a participating member of the Michigan Municipal Employees Retirement System (MERS) which covers substantially all of the City employees. The plan requires employees' contributions equal to specified percentages of earnings and the City makes annual contributions to the plan equal to the amounts accrued for pension expense. Detailed information concerning the plan was not available, accordingly, various disclosures, required by GASB Statement No.25, are not included herein.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE K - POLICEMEN AND FIREMEN RETIREMENT PLAN

This plan was established and is maintained under the Fire and/or Police Department Pension and Retirement Act, Act 345, P.A. 1937. This plan provides for all past full time policemen and firemen and benefits were vested after 10 years of service. At June 30, 2006, the plan had no unfunded accrued liabilities. The City had no expense related to the plan for the years ended June 30, 2006, and 2005. Since the City's police and fire departments have been terminated, there were no active members at June 30, 2006.

NOTE L – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City has obtained coverage from a commercial insurance company. The City has comprehensive general liability coverage and has obtained worker' compensation coverage.

All risk management activities are accounted for in the financial statements of the City. Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2006, will not materially affect the financial condition of the City. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE M – COMMITMENTS AND CONTINGENCIES

In normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of that is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

OTHER FINANCIAL INFORMATION

CITY OF BESSEMER, MICHIGAN
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue Funds		Totals
	Building Authority Fund	Downtown Development Authority Fund	
ASSETS			
Cash and investments	\$4,157	\$64,969	\$69,126
Due from other funds	<u>0</u>	<u>4,112</u>	<u>4,112</u>
	<u>\$4,157</u>	<u>\$69,081</u>	<u>\$73,238</u>
LIABILITIES			
Vouchers payable	-	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>
	-	-	-
EQUITY			
Fund balance (deficit):			
Unreserved	<u>4,157</u>	<u>69,081</u>	<u>73,238</u>
	<u>4,157</u>	<u>69,081</u>	<u>73,238</u>
	<u>\$4,157</u>	<u>\$69,081</u>	<u>\$73,238</u>

CITY OF BESSEMER, MICHIGAN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS
 For the Fiscal Year ended June 30, 2006

	Special Revenue Funds		
	Building Authority Fund	Downtown Development Authority Fund	Totals
Revenues:			
Taxes	\$ -	\$ 44,647	\$ 44,647
Interest	46	1,766	1,812
Miscellaneous	-	-	-
	46	46,413	46,459
Expenditures:			
General government	-	8,822	8,822
Capital outlay	-	21,093	21,093
	-	29,915	29,915
Excess of Revenues over (under) expenditures	46	16,498	16,544
Other Financing Sources (Uses):			
Operating transfers in	-	-	-
Proceeds from borrowing	-	-	-
	-	-	-
Excess of Revenues and Other Sources over (under) expenditures and Other Uses	46	16,498	16,544
Fund balance - beginning of year (deficit)	4,111	52,583	56,694
Fund Balance - end of year (deficit)	\$4,157	\$69,081	\$73,238

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUE - BUDGET AND ACTUAL - GENERAL FUND
Year ended June 30, 2006

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Taxes:				
Property taxes	\$398,850	\$387,100	\$388,513	\$1,413
Collection fees	<u>13,700</u>	<u>15,000</u>	<u>14,703</u>	<u>(297)</u>
	412,550	402,100	403,216	1,116
Licenses and permits	2,000	3,500	4,140	640
Intergovernmental revenues:				
Federal sources - FEMA	50	31,954	31,904	(50)
State sources:				
Library grant	1,800	1,800	1,358	(442)
Revenue sharing	270,500	270,500	270,514	14
Other	<u>3,100</u>	<u>-</u>	<u>10,904</u>	<u>10,904</u>
	275,450	304,254	314,680	10,426
Charges for services:				
Administration	100,000	78,025	83,025	5,000
Rentals	150,350	207,525	224,666	17,141
Sanitation	138,500	138,500	137,970	(530)
Cemetery	18,000	22,300	24,850	2,550
Library	1,750	4,520	4,729	209
Other	<u>100</u>	<u>275</u>	<u>374</u>	<u>99</u>
	408,700	451,145	475,614	24,469
Fines and forfeits	20,000	27,300	27,300	-
Other				
Interest	16,500	12,400	8,495	(3,905)
Sale of property	13,100	52,002	81,200	29,198
Miscellaneous	<u>250</u>	<u>14,300</u>	<u>3,830</u>	<u>(10,470)</u>
	<u>29,850</u>	<u>78,702</u>	<u>93,525</u>	<u>14,823</u>
TOTAL REVENUES	<u>\$1,148,550</u>	<u>\$1,267,001</u>	<u>\$1,318,475</u>	<u>\$51,474</u>

CITY OF BESSEMER, MICHIGAN
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND
Year ended June 30, 2006

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
General government:				
Council/administration	\$6,321	\$6,321	\$5,848	\$473
Manager	58,550	54,975	53,103	1,872
General administration	333,800	325,415	296,843	28,572
Clerk	9,400	24,590	23,633	957
External audit	2,100	5,750	5,750	-
Board of review	2,550	2,550	2,556	(6)
Treasurer	45,500	28,460	29,376	(916)
Assessor	13,500	13,500	14,691	(1,191)
Elections	1,150	900	341	559
Buildings and grounds	24,250	33,170	32,826	344
Attorney	5,000	5,000	3,276	1,724
Cemetery	42,400	49,300	49,936	(636)
	544,521	549,931	518,179	31,752
Public safety:				
Police protection	144,250	83,750	83,573	177
Fire protection	27,715	30,545	28,603	1,942
Building inspector	4,900	4,900	4,921	(21)
	176,865	119,195	117,097	2,098
Highways and streets:				
Maintenance	159,550	164,178	153,808	10,370
Street lighting	48,700	45,400	42,501	2,899
	208,250	209,578	196,309	13,269
Sanitation - Collection/disposal	120,900	117,760	112,765	4,995
Culture and recreation:				
Planning	650	650	-	650
Parks and recreation	13,850	13,850	11,800	2,050
Library	58,400	58,400	58,490	(90)
	72,900	72,900	70,290	2,610
Capital outlay	-	30,801	30,801	-
Debt service:				
Principal	51,685	51,685	76,687	(25,002)
Interest	11,174	11,174	15,108	(3,934)
	62,859	62,859	91,795	(28,936)
TOTAL EXPENDITURES	1,186,295	1,163,024	1,137,236	\$25,788

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
BUILDING AUTHORITY FUND
Year ended June 30, 2006

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Federal grant	\$ -	\$ -	\$ -	\$ -
Interest	-	-	46	46
	<u>-</u>	<u>-</u>	<u>46</u>	<u>46</u>
Expenditures:				
General government:				
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues over (under) Expenditures	<u>-</u>	<u>-</u>	<u>46</u>	<u>46</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	46	46
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>4,111</u>	<u>4,111</u>
Fund balance at end of year (deficit)	<u>\$0</u>	<u>\$0</u>	<u>\$4,157</u>	<u>\$4,157</u>

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DOWNTOWN DEVELOPMENT AUTHORITY FUND
Year ended June 30, 2006

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 50,000	\$ 50,000	\$ 44,647	\$ (5,353)
Interest	-	-	1,766	1,766
Miscellaneous	-	-	-	-
	<u>50,000</u>	<u>50,000</u>	<u>46,413</u>	<u>(3,587)</u>
Expenditures:				
General government	3,600	3,600	8,822	(5,222)
Capital outlay	<u>46,400</u>	<u>46,400</u>	<u>21,093</u>	<u>25,307</u>
	<u>50,000</u>	<u>50,000</u>	<u>29,915</u>	<u>20,085</u>
Excess of Revenues over (under) Expenditures	-	-	16,498	16,498
Other Financing Sources (Uses):				
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	16,498	16,498
Fund balance at beginning of year	<u>52,583</u>	<u>52,583</u>	<u>52,583</u>	<u>-</u>
Fund balance at end of year	<u><u>\$52,583</u></u>	<u><u>\$52,583</u></u>	<u><u>\$69,081</u></u>	<u><u>\$16,498</u></u>

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR STREET FUND
For the Fiscal Year ended June 30, 2006

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
State sources:				
Highway aids	\$191,600	\$173,900	\$171,510	(\$2,390)
State trunk line maintenance	17,000	34,163	22,323	(11,840)
Interest	-	1,800	1,817	17
	<u>\$208,600</u>	<u>209,863</u>	<u>195,650</u>	<u>(14,213)</u>
Expenditures:				
Highways and streets:				
Council /administration	4,300	1,800	1,130	670
General administration	39,850	39,850	40,045	(195)
Construction	-	8,862	8,862	-
Routine maintenance	39,900	44,910	40,026	4,884
Snow and ice	76,000	93,000	92,959	41
Trunkline maintenance	17,550	17,550	17,681	(131)
	<u>177,600</u>	<u>205,972</u>	<u>200,703</u>	<u>5,269</u>
Excess of Revenues over (under) Expenditures	31,000	3,891	(5,053)	(8,944)
Other Financing Sources (Uses):				
Operating transfers in	-	27,109	-	(27,109)
Operating transfers (out)	<u>(31,000)</u>	<u>(31,000)</u>	<u>(31,000)</u>	<u>-</u>
	<u>(31,000)</u>	<u>(3,891)</u>	<u>(31,000)</u>	<u>(27,109)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	(36,053)	(36,053)
Fund balance at beginning of year	<u>50,834</u>	<u>50,834</u>	<u>50,834</u>	<u>-</u>
Fund balance at end of year (deficit)	<u>\$50,834</u>	<u>\$50,834</u>	<u>\$14,781</u>	<u>(\$36,053)</u>

CITY OF BESSEMER, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
LOCAL STREET FUND
Year ended June 30, 2006

	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
State sources:				
Highway aids	\$103,500	\$70,500	\$68,532	(\$1,968)
Interest	-	600	355	(245)
	<u>103,500</u>	<u>71,100</u>	<u>68,887</u>	<u>(2,213)</u>
Expenditures:				
Highways and streets:				
Council/administration	1,525	1,525	1,720	(195)
General administration	11,525	29,239	28,694	545
Construction	18,150	38,136	24,155	13,981
Routine maintenance	52,800	71,100	72,091	(991)
Snow and ice	63,500	82,100	79,189	2,911
Trunkline maintenance	-	-	292	(292)
	<u>147,500</u>	<u>222,100</u>	<u>206,141</u>	<u>15,959</u>
Excess of Revenues over (under) Expenditures	(44,000)	(151,000)	(137,254)	13,746
Other Financing Sources (Uses):				
Operating transfers in	44,000	151,000	171,000	20,000
Operating transfers (out)	-	-	-	-
	<u>44,000</u>	<u>151,000</u>	<u>171,000</u>	<u>20,000</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	33,746	33,746
Fund balance at beginning of year	<u>(20,986)</u>	<u>(20,986)</u>	<u>(20,986)</u>	<u>-</u>
Fund balance at end of year (deficit)	<u>(\$20,986)</u>	<u>(\$20,986)</u>	<u>\$12,760</u>	<u>\$33,746</u>

SUPPLEMENTAL REPORT

DAVID TRACZYK

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mayor and Member of the Council
City of Bessemer
Bessemer, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Bessemer, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City of Bessemer, Michigan's, basic financial statements and have issued my report thereon dated September 21, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Bessemer, Michigan's financial statements are free of material misstatement, I performed tests of it's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Bessemer, Michigan's, internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

One reportable condition is described as follows:

06-1 Fixed Assets

Condition and Criteria: The City has not updated its general fixed assets ledgers or enterprise fund asset ledgers for many years.

Effect: Because of the failure to properly maintain the fixed asset accounts, proper control over these assets cannot be achieved.

Recommendation: It is recommended that all fixed asset accounts be updated and maintained as an integral part of the City's accounting system.

Response: We concur with the recommendation and have begun the process.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However of the reportable conditions described above, I do not consider item 06-1 to be a material weakness. This condition was also cited in the previous year's report

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 21, 2006